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Enabling poor rural people  
to overcome poverty

## **People's Republic of China**

### **Shiyan Smallholder Agribusiness Development Project (SSADeP)**

### **Negotiated financing agreement**

Executive Board — 110<sup>th</sup> Session  
Rome, 10-12 December 2013

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**For: Information**

# **Negotiated financing agreement: "Shiyan Smallholder Agribusiness Development Project (SSADeP)"**

(Negotiations concluded on 3 December 2013)

Loan Number:

Project Title: Shiyan Smallholder Agribusiness Development Project (the "Project")

People's Republic of China (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

## **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

## **Section B**

4. The amount of the Loan is twenty eight million five hundred and fifty thousand Special Drawing Rights (28 550 000 SDR).
5. The Loan is granted on ordinary terms and shall have a maturity period of eighteen (18) years including a grace period of five (5) years.
6. The Loan Service Payment Currency shall be the United States Dollar.
7. The first day of the applicable Fiscal Year shall be 1 January.
8. Payments of principal and interest shall be payable on each 15 June and 15 December.

9. There shall be a Designated Account denominated in USD opened and maintained by the Department of Finance of the Hubei Province in a commercial bank acceptable to the Fund through which the Loan proceeds shall be channelled. The Designated Account shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by IFAD.

10. The Borrower shall provide counterpart financing for the Project and shall cause the Governments of the Hubei Province and each participating county governments to provide counterpart financing for the Project in a total amount equivalent to approximately USD 20.14 million including all recurrent costs. Project beneficiaries shall provide a contribution in cash or in kind of approximately USD 24.46 million and partner banks shall contribute approximately USD 28.5 million for leveraged credit. The counterpart funds shall be channelled and made available for the Project.

11. The Provincial and Prefecture Project Management Office (PPMO), all County Project Management Offices (County PMOs), County Bureaux of Finance (BOFs), Township Project Management Offices (TPMOs) and Implementing Agencies (IAs) shall maintain Project Accounts in local currency in Banks acceptable to IFAD to receive the proceeds of the financing and/or the counterpart funding.

### **Section C**

12. The Lead Project Agency shall be the Provincial Department of Agriculture (DOA) designated by the Government of the Hubei Province for the overall coordination and supervision of the Project activities.

13. Additional Project Parties include the Bureau of Water Resources, Bureau of Transportation, Bureau of Agriculture, Bureau of Livestock, the Rural Economic and Cooperative Management Bureau (RECMB).

14. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

### **Section D**

15. The Loan will be administered and the Project supervised by the Fund. In addition to supervision missions which shall normally be carried out each six (6) months, the Fund shall conduct a mid-term review to be carried out towards the third year of Project implementation.

### **Section E**

16. The following are designated as additional grounds for suspension of this Agreement:

The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

17. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Provincial Project Management Office ("Provincial PMO"), the Prefecture Project Management Office ("Prefecture PMO") and at least one County PMO shall have been duly established and composed in accordance with Schedule 1, Section II and the respective Project staff shall have been selected;
- (b) The Borrower, through the Lead Project Agency, shall have submitted, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Project Year;
- (c) The Designated Account shall have been duly opened and the authorized signatories shall have been submitted to the Fund;
- (d) A draft PIM shall have been prepared and is acceptable to the Fund; and
- (e) A computerized accounting system acceptable to the Fund shall have been identified and selected by the Prefecture PMO.

18. The following are designated as additional specific conditions precedent to withdrawal:

- (a) No withdrawals shall be made in respect of expenditures under Category V (Credit Guarantee Funds) until a separate operational manual for the operation modalities of the Guarantee facility including eligibility and selection criteria for the Guarantee agencies, and the participating banks shall have been prepared by the Lead Project Agency and shall have been approved by the Fund; and
- (b) No withdrawals shall be made in respect of expenditures under Category V (Credit Guarantee Funds) until a draft Guarantee Agency Subsidiary Agreement referred to in Schedule 1, Section II-B has been approved by the Fund.

19. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Minister for Finance of the People's Republic of China  
Ministry of Finance  
No. 3 Nansanxiang, Sanlihe, Xicheng District  
Beijing 100820  
People's Republic of China

For the Fund:

President  
International Fund for Agricultural Development  
Via Paolo di Dono, 44  
00142 Rome, Italy

This Agreement, dated [            ], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

PEOPLE'S REPUBLIC OF CHINA

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Authorized Representative  
[Title]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

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Kanayo F. Nwanze  
President

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. **Target Population.** The Project shall benefit poor women and men from rural households, with a focus on women's interests, participation and benefits in the following five (5) counties and three (3) districts in the Shiyan Prefecture of the Hubei Province: Yunxi County, Yunxian County, Danjiangkou County, Zhushan County, Zhuxi County, Shian city's Maojian, Zhangwan and Wudangshan Districts (the "Project Area").
2. **Goal.** The goal of the Project is to sustainably reduce rural poverty and improve the livelihood of rural households involved in both agricultural and livestock value chains in targeted areas.
3. **Objectives.** The objectives of the Project are to (i) empower the rural poor to participate in commercial farming for increasingly profitable agricultural production; and (ii) increase farm family incomes while decreasing income variability in target areas through enhancing production, diversification, commercialization and value addition of agricultural products along selected value chains.
4. **Components.** The Project shall consist of the following three components, which support and complement each other to achieve the anticipated impact in the Project Area, and integrate commercial farming, agribusiness development and improved market access through a value chain approach:

**Component A: Value Chain Strengthening.** The objective of this component is to improve value-addition, access to markets and rural financial services for smallholders. Through the following sub-components: (i) institutional and capacity building for cooperative development; (ii) support for Pro-poor Public Private Partnership (PPPP) business models; and (iii) the establishment of a guarantee facility as a credit enhancement mechanism for pro-poor value chain financing.

*Sub-component A.1 - Institutional and capacity building for cooperative development.*

This sub-component will be achieved through the following activities:

- (a) *Strengthening the Capacity of the RECMB and Cooperative Promoters.* The Project will finance cooperatives trainings on participatory techniques giving them exposure to international cooperative concepts and experience through study tours, support for cultivating and developing the social dimension of cooperatives.
- (b) *Improved Provision of Member Services.* Technical services such as training on cultivation skills and advice on pest and disease management will be provided as well as activities such as soil-testing to assess fertilizer requirements; food safety certification; mechanized land preparation; access to credit schemes; animal health care services; access to quality breeding sires etc.
- (c) *Improved Market Linkages.* Cooperative staff will be trained and supported to develop a long-term business strategy to improve link aging and increase profitability. Support will be provided for implementation of the value chain strategies and may include activities such as: product improvement and development, diversifying target markets, effective pricing strategies and

contract negotiation, introducing promotion campaigns. Cooperative promoters and staff of cooperatives will be trained in value chain analysis skills and the cooperatives and relevant enterprises will be supported to implement the marketing strategy.

*Sub-component A.2 - Support for PPPP business models.*

- (a) The Project will finance semi-public goods on a grant basis related to cooperative-led and company-led PPPP business models that link small farmers and their cooperatives with private companies and integrate small rural producers into profitable agricultural value chains to improve their access to secure markets and raise their incomes. The selection of PPPP business models will be on a competitive basis in accordance with the eligibility and selection criteria defined in the PIM including the record of accomplishment and commitment of the private sector company and the cooperative and the viability and pro-poor nature of the business proposal.
- (b) The PPPP financing will focus on investments in *semi-public goods* related to the PPPP business plans, e.g. technical assistance, market research, product development, certification, promotion, productive collective assets (warehouses, equipment, processing units, machinery, etc.), and other initial investments that are needed to execute the business plans.

*Sub-component A.3 - Establishment of a Guarantee Facility as a credit enhancement mechanism for pro-poor value chain financing.* The objective of this sub-component is to leverage the existing liquidity of participating Project partner banks to increase production and upgrade processing, storage and transport facilities. The Guarantee Facility will be managed by specialized guarantee agencies at county and prefecture level selected in accordance with the criteria defined in the PIM. The selected guarantee agencies shall have been approved by the Fund and the Lead Project Agency. The selected guarantee agencies will provide a partial guarantee cover for loans financed by eligible participating banks. The PIM will define the eligibility criteria for participating banks as well as for the beneficiaries who shall include agricultural cooperatives, associations, groups or enterprises.

**Component B: Commercial Farming Enhancement.** The objective of this component is to enhance incomes for the small holders through the following sub-components:

*Sub-component B.1 - Household-based commercial production.* Activities under this sub-component include: (a) support to commercial production including provision of seeds and seedlings for crop production, livestock and sericulture production, fish culture, provision of fertilizers, introduction of disease control, water charges, and provision of materials and equipment, plus, (b) technical training both Project staff and beneficiaries.

*Sub-component B.2 - Infrastructure improvement for commercial production.* Activities under this sub-component include: (a) the improvement of rural roads; (b) the improvement of irrigation systems; and (c) land preparation and levelling for proposed commercial production. The Project will support the establishment of village level road maintenance groups and water users' associations and their training and capacity/capability development.

## **Component C: Project Management and Coordination**

Project management will include the establishment and operation of PMOs at provincial, prefecture, county and township levels. Project implementation will be substantially decentralized to the County PMOs. The organization and management is outlined in Section II below.

### **II. Implementation Arrangements**

#### **A. Organization and Management**

##### *1. Lead Project Agency*

1.1. The Lead Project Agency shall be the DOA of the Hubei Province for the overall coordination and supervision of the Project.

##### *2. Project Leading Group (PLG)*

2.1. *Establishment and composition.* PLGs shall be established at provincial, prefecture and county levels respectively by the province, prefecture and each county where the Project will be implemented. Each PLG shall be chaired by a senior official of government of the same level and include the representatives from relevant departments, bureaux and institutions as appropriate.

2.2. *Responsibilities.* The PLGs shall provide overall guidance and be responsible for the coordination and planning of Project implementation at their respective levels. Key responsibilities of PLGs shall include: (i) overall supervision of PMO's operations and Project performance; (ii) coordination of counterpart funds; (iii) review and approval of Annual Work Plans and Budgets (AWPB) and progress reports; and (iv) coordination of Project IAs in implementation of Project activities and reporting.

##### *3. Provincial Project Management Office (Provincial PMO)*

3.1. *Establishment.* A Provincial PMO shall be established by the DOA who shall select one director and the deputy director. The Provincial PMO shall be located within the DOA.

3.2. *Composition.* The Provincial PMO shall be a small and agile unit composed of at least the following key positions: a director, a deputy director, an accountant, and a Monitoring and Evaluation Officer. Qualified staff shall be selected according to the Borrower's applicable procedures.

3.3. *Responsibilities.* The Provincial PMO shall be responsible for coordinating Project implementation across the Project Area. Its main responsibilities shall be to formulate government regulations and provide general oversight on the implementation of Project activities by the Prefecture, County and Township PMOs.

##### *4. Prefecture Project Management Office (Prefecture PMO)*

4.1. *Establishment.* A Prefecture PMO shall be established by the Bureau of Agriculture of the Prefecture government. The Prefecture PMO shall be responsible for the coordination and management of Project activities in the eight (8) Counties and Districts of the Project Area under its jurisdiction.



4.2. *Composition.* The Prefecture PMO shall be composed of at least the following key positions: a director, a deputy director, an accountant, a cashier, a M&E officer, a planning officer, a gender coordinator and a full time staff member specialized in value chains/agribusiness development/agricultural industrialization to overview and monitor closely the implementation of the business plans. Qualified staff shall be selected according to the Borrower's applicable procedures.

4.3. *Responsibilities.* Under the leadership of the Provincial PMO, the Prefecture PMO shall be responsible for overseeing the day-to-day management of the Project activities in the three (3) districts and perform an oversight and supervisory role with respect to the five (5) Counties under its jurisdiction. In addition, the Prefecture PMO shall perform overarching functions of planning, coordination and monitoring Project implementation at prefecture level, with the operations being substantially decentralised to the County PMOs. Its responsibilities shall include: (i) coordination of AWPBs submitted by the Counties and Districts; (ii) monitoring and evaluation of Project implementation; (iii) provision of appropriate training to County PMOs and IAs in terms of Project implementation; (iv) preparation and consolidation of SOEs, financial statements and withdrawal applications; (v) procurement under the Project; and (vi) Project reporting.

4.4. *Business Plan Appraisal Committee (BPAC).* Under the guidance of the Provincial PMO, the Prefecture PMO shall establish a Business Plan Appraisal Committee (BPAC). The composition and responsibilities of the BPAC, including its governance and administration, frequency of meetings, voting procedures, evaluation and review process of the business plans, record keeping shall be defined in the PIM. A qualified full-time staff member of the Prefecture PMO shall serve as secretary and non-voting member of the BPAC.

## 5. *County Project Management Offices (County PMOs)*

5.1. *Establishment.* County PMOs shall be established in each of the five (5) Counties of the Project Area through an official document from the county government. The County PMOs shall be located within the BOAs.

5.2. *Composition.* The County PMOs shall be composed of at least the following key positions: a director, a deputy director, an accountant, a cashier, a M&E officer, a planning officer, and a gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

5.3. *Responsibilities.* The County PMOs shall be responsible for coordinating Project implementation at County level. Their responsibilities shall include: (i) development of AWPBs through participatory approaches, (ii) monitoring and supervision of Project implementation, (iii) facilitation of the establishment of the Village Implementing Groups (VIGs), (iv) provision of appropriate training to IAs, TPMOs and VIGs in terms of Project implementation, (v) preparation of SOEs, financial statements and claim documents, (vi) organising of Project procurement, and (vii) Project reporting.

## 6. *Township Project Management Offices (TPMOs)*

6.1. *Establishment.* TPMOs shall be established by the township governments through an official document from the government, in each township of the Project Area utilising the existing local government facilities.

6.2. *Composition.* The local government shall assign qualified staff to the TPMOs.

6.3. *Responsibilities.* TPMOs will provide support to the County PMOs and IAs for implementation of Project activities at village level on an as-required basis. Their responsibilities shall include: (i) oversee the works of VIGs; (ii) identify eligible villages that could participate in Project activities; (iii) facilitate village-level participatory planning activities to determine what activities will be implemented in the villages; (iv) review village implementation work plans; (v) coordinate the township technical stations/centres in Project implementation; (vi) consolidate the M&E data collected by VIGs and submit to CPMOs; and (vii) facilitate the liaison with target villages.

## 7. *Village Implementing Groups (VIGs)*

7.1. *Establishment.* A VIG shall be established by the local authorities with the support of the County PMOs in each selected administrative village.

7.2. *Composition.* The VIG will be chaired by the Head of the village committee and composed of approximately ten (10) to fourteen (14) people including all existing village committee members and approximately five (5) to seven (7) farmer representatives from different household categories of well-being such as, women and vulnerable target populations.

7.3. *Responsibilities.* The responsibilities of the VIGs shall include: (i) participatory perceived well-being ranking of households within the village on a need basis; (ii) identifying Project activities prioritized by eligible groups through participatory approach, and reporting to the PMOs for the development of AWPBs; (iii) organizing the poor and vulnerable households to participate in Project activities; (iv) assisting PMOs monitor Project implementation and collecting M&E data as required; and (v) organizing the operation and maintenance of community infrastructure built by the Project.

## **B. *Implementation of Components***

### **8. *Component A: Value Chain Strengthening***

8.1. *Sub-component A.1: Institutional and capacity building for cooperative development.* The training, promotion, coaching and inspection of cooperatives activities under this sub-component shall be implemented by the RECMB. Other specialist trainers, consultants and business support service providers shall be contracted in accordance with this Agreement.

8.2. *Sub-component A.2: PPPP business models.* Activities under this sub-component shall be implemented by the Prefecture PMO who shall be responsible to oversee and monitor the implementation of the business plans under the overall supervision of the Provincial PMO. The BPAC established by the Prefecture PMO shall be responsible for the review, assessment and selection of the business models in accordance with the selection and eligibility criteria defined in the PIM and make a recommendation to the Prefecture PMO.

8.3. *Sub-component A.3: Guarantee Facility.* Activities under this sub-component shall be implemented by specialized guarantee agencies at county and prefecture levels selected in accordance with criteria specified in the PIM. To this end, a subsidiary agreement shall be entered into by BOFs with each selected guarantee agency.

8.3.1. *The Guarantee Agency Subsidiary Agreement.* The BOFs shall enter into an agreement with each participating guarantee agency for the implementation of the guarantee facility sub-component A.3. To this end a subsidiary agreement shall be drafted which shall provide, among other things, that:

- (a) The guarantee agency shall declare its commitment to the goals and purposes of the Project as stated in Schedule 1 and, in furtherance of such goals and purposes, it shall undertake to carry out activities under the Guarantee Facility sub-component A.3 in accordance with this Agreement;
- (b) The Borrower through the DOF, shall transfer Project resources to the relevant guarantee agency in accordance with the AWPBs;
- (c) The guarantee agency shall implement the guarantee facility sub-component A.3 in accordance with the criteria described in the PIM.

8.3.2. The Borrower, through the Lead Project Agency, shall submit a draft of the Guaranty Agency Subsidiary Agreement to the Fund for non-objection.

8.3.3. *Agreements with Participating Banks.* The Prefecture PMO shall enter into an agreement with each participating bank selected in accordance with eligibility and selection criteria defined in the PIM. The agreement shall provide amongst other things: the financing of the loans through their own funds, the type and use of guarantee made available by the Guarantee agency and the interest rate levels.

## 9. **Component B: Commercial Farming Enhancement**

9.1. *Sub-component B.1: Household based commercial production.* Activities under this sub-component in relation to annual/perennial cash crops, tree crops and sericulture shall be implemented by the BOA under the coordination of the PMOs. The BOL shall be responsible for the implementation of the livestock and poultry development activities and the Bureau of Fisheries for the fish culture activity. The Project sites and villages where activities will be implemented under this sub-component shall be selected by the Prefecture and County PMOs in accordance with criteria defined in the PIM. The BOA of the Prefecture and of each County of the Project Area shall provide technical services to Project beneficiaries.

9.2. *Sub-component B.2: Infrastructure improvement for commercial production.* Implementation of the activities under this sub-component shall follow a participatory approach through village level road maintenance groups and water users associations. Under the coordination of the PMOs, the Prefecture and County Bureaux of Transportation (BOTs) shall be responsible for the implementation of the road improvement related activities through service providers such as professional construction contractors selected in accordance with this Agreement. Irrigation related activities shall be implemented by the Prefecture and County Bureaux of Water Resources (BOWRs) through service providers such as professional construction contractors who shall be selected in accordance with this Agreement. The BOWR shall be responsible for technical guidance and supervision. The BOA and farmers' cooperatives shall be responsible for the land levelling and preparation activities. The selection of infrastructure projects and intervention sites shall be done in accordance with the selection criteria specified in the PIM.

**C. *Project Implementation Manual***

10. *Preparation.* The Prefecture PMO shall prepare a draft PIM which shall be approved by the Provincial PMO. The draft PIM shall include, among other things:

- (a) Terms of reference and implementation responsibilities of Project staff, consultants and likely service providers;
- (b) Criteria for the performance appraisal of the Project professional staff;
- (c) The composition of the BPAC and its responsibilities;
- (d) Selection and eligibility criteria for the PPP Business models;
- (e) Targeting and selection criteria for the interventions under the sub-components B.1 (Household based commercial production) and B.2 (Infrastructure improvement for commercial production) for participating villages, cooperatives and other beneficiaries;
- (f) Project operational, financial and procurement procedures, including participatory planning, implementation and monitoring procedures; and
- (g) M&E system and procedures including the Results and Impact Management System (RIMS).

11. *Approval and Adoption.* The Lead Project Agency, through the Provincial PMO, shall forward the draft PIM to the Fund for comments and approval. The Lead Project Agency shall cause the PMOs to adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency, through the Provincial PMO, shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed approved.

**Schedule 2***Allocation Table*

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage
I- Equipment and Materials	460 000	100% net of taxes
II-A Goods, Services & Inputs	9 230 000	85% of total costs net of taxes
II-B Goods, Services & Inputs	7 610 000	45% of the total costs
III- Works	1 930 000	20% of total costs
IV- Consultancies	5 260 000	100% net of taxes
V- Credit Guarantee Funds	990 000	100% net of taxes
VI- Vehicles	220 000	100% net of taxes
Unallocated	2 850 000	
<b>TOTAL</b>	<b>28 550 000</b>	

(b) The terms used in the Table above are defined as follows:

"Equipment and Materials" under Category I shall mean eligible expenditures incurred related to equipment and materials under Component C (Project Management and Coordination).

"Goods, Services & Inputs-A" under Category II-A shall mean eligible expenditures incurred related to agriculture input and material under Component B (Commercial Farming Enhancement).

"Goods, Services & Inputs-B" under Category II-B shall mean eligible expenditures incurred related to support for PPPP business models under Sub-component A.2 (Support for PPPP business models).

"Works" under Category III shall mean eligible expenditures incurred related to civil works in the form of improvement of rural roads and irrigation interventions under Component B (Commercial Farming Enhancement).

"Consultancies" under Category IV shall mean eligible expenditures incurred related to technical assistance, research and studies, training, workshops and studies and technical and consultant services.

"Credit Guarantee Funds" under Category V shall mean eligible expenditures incurred related to additional capitalization into participating guarantee agencies/corporations to hedge against defaults of loans covered under Sub-component A.3 (Guarantee Facility).